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Thaba Chweu Local Municipality
(Registration number MP321)
Annual Financial statements
for the year ended 30 June 2018

General Information

Mayoral committee	
Executive Mayor	S. Mashigo-Sekgobela
Speaker	ET. Mabuza
Chief Whip	IT. Mokoena
Executive committee	MT. Mashego
	JM. Kock
	SA. Manzini
Ward Councillors	KJ. Malepe
	SM. Phetla
	SE. Van Douwe
	RG. Herbst
	JJ. Mkhize
	PM. Mpholoane
	KA. Letsane
	MB. Mokoena
	SJ. Shongwe
	N. Van Vuuren
	KK. Segodi
	MM. Masimola
Proportional Councillors	JH. Ligthelm
	CJ. Sibiya
	GP. Raphiri
	PS. Makhubela
	VD. Mabilu
	PD. Marobela
	EK. Mabanne
	DR. Nkabinde
	ML. Netshirembe
Grading of local authority	Low Capacity
Accounting Officer	TMP Kgoale
Chief Financial Officer	LM Mokwena
Registered office	Lydenburg Mpumalanga South Africa 1120
Business address	Corner Viljoen & Sentraal Street Lydenburg Mpumalanga 1120
Postal address	P.O Box 61 Lydenburg 1120
Bankers	Standard Bank of South Africa
Auditors	Auditor General South Africa

General Information

Legal form of entity	MP321 - Local Municipality The Municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structures Act 117 of 1998, Municipal Systems Act 32 of 2000, and various other acts and regulations.
The following is included in the scope of operation	Thaba Chweu Local Municipality is a South African Category B Local Municipality as defined by the Municipal Structures Act. The Municipality performs functions as set out in the Constitution. This means that the Municipality provides services such as electricity and refuse to the Community.
Jurisdiction	Lydenburg / Mashishing Graskop, Pilgrim's Rest and Sabie

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature and the Municipal Council:

ACRONYMS USED

DPSA	Department of Public Services and Administration
VAT	Value Added Tax
GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Local Government: Municipal Finance Management Act, Act no 56 of 2003
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn
WSIG	Water Services Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance withthe MFMA and GRAP including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 7 to 88, which have been prepared on the going concern basis, were approved by the on 31 August 2018 and were signed on its behalf by:

Accounting Officer
SS Matsi

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	152,430,727	152,463,165
Consumer debtors	4	78,259,713	42,363,944
Other receivables from non-exchange transactions	5	3,372,109	1,549,652
VAT receivable	6	38,803,053	40,191,280
Cash and cash equivalents	7	34,336,670	21,150,317
		307,202,272	**257,718,358**
Non-Current Assets			
Property, plant and equipment	8	1,020,710,148	999,216,544
Investment property	9	136,298,073	131,227,862
Heritage assets	10	360,341	360,341
		1,157,368,562	**1,130,804,747**
Total Assets		**1,464,570,834**	**1,388,523,105**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	608,845,021	527,817,608
Consumer deposits	12	3,625,348	3,856,824
Unspent conditional grants and receipts	13	21,773,768	7,512,257
Employee benefit obligation	14	5,646,300	5,877,339
Provisions	15	1,202,614	1,284,450
		641,093,051	**546,348,478**
Non-Current Liabilities			
Employee benefit obligation	14	32,459,499	35,279,333
Provisions	15	34,696,325	41,530,548
		67,155,824	**76,809,881**
Total Liabilities		**708,248,875**	**623,158,359**
Net Assets		**756,321,959**	**765,364,746**
Accumulated surplus		756,321,959	765,364,746

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	16	193,494,552	182,666,320
Interest revenue	17	22,559,871	19,023,451
Actuarial gains		7,620,356	-
Fair value adjustment on investment property		5,070,211	8,046,862
Other income	18	3,875,698	7,175,087
Rental of facilities and equipment	19	2,988,270	3,172,912
Agency services	20	-	79,929
Total revenue from exchange transactions		**235,608,958**	**220,164,561**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	94,356,896	95,004,502
Transfer revenue			
Government grants & subsidies	22	220,094,497	208,627,843
Public contributions and donations	23	2,407,680	-
Fines, Penalties and Forfeits	24	4,114,346	3,696,160
Total revenue from non-exchange transactions		**320,973,419**	**307,328,505**
Total revenue	26	**556,582,377**	**527,493,066**
Expenditure			
Employee related costs	27	(185,255,773)	(156,007,051)
Bulk purchases	28	(121,753,325)	(126,180,570)
Depreciation and amortisation	29	(59,139,942)	(55,084,528)
General Expenses	30	(90,193,747)	(108,552,285)
Debt Impairment	31	(23,392,946)	(15,374,300)
Finance costs	32	(28,227,290)	(16,426,286)
Remuneration of councillors	33	(10,314,466)	(9,938,584)
Impairment loss/ Reversal of impairments	34	-	(1,565,949)
Contracted services	35	(47,347,675)	(39,755,126)
Loss on disposal of assets and liabilities		-	(119,983,473)
Actuarial losses		-	(1,688,147)
Total expenditure		**(565,625,164)**	**(650,556,299)**
Deficit for the year		**(9,042,787)**	**(123,063,233)**

* See Note 38

Thaba Chweu Local Municipality
(Registration number MP321)
Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2,168,551,857	2,168,551,857
Adjustments		
Prior year adjustments	(1,280,123,878)	(1,280,123,878)
Balance at 01 July 2016 as restated*	**888,427,979**	**888,427,979**
Changes in net assets		
Surplus for the year	(123,063,233)	(123,063,233)
Total changes	(123,063,233)	(123,063,233)
Restated* Balance at 01 July 2017	**765,364,746**	**765,364,746**
Changes in net assets		
Surplus for the year	(9,042,787)	(9,042,787)
Total changes	(9,042,787)	(9,042,787)
Balance at 30 June 2018	**756,321,959**	**756,321,959**

* See Note 38

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		258,475,160	272,365,671
Grants		234,356,007	216,140,101
Interest income		2,892,683	2,234,394
Other receipts		-	26,339,024
Donation received		2,407,680	-
		498,131,530	517,079,190
Payments			
Employee costs		(183,603,760)	(165,945,635)
Suppliers		(189,518,717)	(195,745,956)
Finance costs		(22,988,639)	(11,907,364)
		(396,111,116)	(373,598,955)
Net cash flows from operating activities	46	**102,020,414**	**143,480,235**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(88,834,054)	(128,613,625)
Proceeds from sale of property, plant and equipment	8	-	1,046,850
Net cash flows from investing activities		**(88,834,054)**	**(127,566,775)**
Net increase/(decrease) in cash and cash equivalents		**13,186,360**	**15,913,460**
Cash and cash equivalents at the beginning of the year		21,150,317	5,236,857
Cash and cash equivalents at the end of the year	7	**34,336,677**	**21,150,317**

The accounting policies on pages 14 to 47 and the notes on pages 48 to 88 form an integral part of the annual financial statements.

* See Note 38

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	276,355,117	(16)	**276,355,101**	193,494,552	**(82,860,549)**	49
Rental of facilities and equipment	3,292,825	(67,815)	**3,225,010**	2,988,270	**(236,740)**	
Other income	17,764,726	7,718,807	**25,483,533**	3,875,698	**(21,607,835)**	49
Interest revenue	19,196,169	(169)	**19,196,000**	22,559,871	**3,363,871**	49
Total revenue from exchange transactions	**316,608,837**	**7,650,807**	**324,259,644**	**222,918,391**	**(101,341,253)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	96,722,990	1,840	**96,724,830**	94,356,896	**(2,367,934)**	
Transfer revenue						
Government grants & subsidies	240,626,000	8,088,090	**248,714,090**	220,094,497	**(28,619,593)**	
Public contributions and donations	-	-	**-**	2,407,680	**2,407,680**	49
Fines, Penalties and Forfeits	1,853,474	-	**1,853,474**	4,114,346	**2,260,872**	49
Total revenue from non-exchange transactions	**339,202,464**	**8,089,930**	**347,292,394**	**320,973,419**	**(26,318,975)**	
Total revenue	**655,811,301**	**15,740,737**	**671,552,038**	**543,891,810**	**(127,660,228)**	
Expenditure						
Employee related costs	(169,317,163)	(690,632)	**(170,007,795)**	(185,255,773)	**(15,247,978)**	
Remuneration of councillors	(9,797,871)	(469,197)	**(10,267,068)**	(10,314,466)	**(47,398)**	
Depreciation and amortisation	(38,128,440)	-	**(38,128,440)**	(59,139,942)	**(21,011,502)**	49
Finance costs	(14,400,000)	(800,000)	**(15,200,000)**	(28,227,290)	**(13,027,290)**	49
Debt Impairment	(14,804)	-	**(14,804)**	(23,392,946)	**(23,378,142)**	49
Bulk purchases	(147,955,474)	(89,526)	**(148,045,000)**	(121,753,325)	**26,291,675**	49
Contracted Services	(69,474,154)	6,824,252	**(62,649,902)**	(47,347,675)	**15,302,227**	49
Transfers and Subsidies	(12,903,637)	(3)	**(12,903,640)**	-	**12,903,640**	
General Expenses	(73,706,200)	(10,883,614)	**(84,589,814)**	(90,193,747)	**(5,603,933)**	
Repairs and maintenance	(27,887,833)	3,945,451	**(23,942,382)**	-	**23,942,382**	49
Total expenditure	**(563,585,576)**	**(2,163,269)**	**(565,748,845)**	**(565,625,164)**	**123,681**	
Operating deficit	**92,225,725**	**13,577,468**	**105,803,193**	**(21,733,354)**	**(127,536,547)**	
Fair value adjustments	-	-	**-**	5,070,211	**5,070,211**	49
Actuarial gains/losses	-	-	**-**	7,620,356	**7,620,356**	49
	-	**-**	**-**	**12,690,567**	**12,690,567**	
Deficit before taxation	**92,225,725**	**13,577,468**	**105,803,193**	**(9,042,787)**	**(114,845,980)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**92,225,725**	**13,577,468**	**105,803,193**	**(9,042,787)**	**(114,845,980)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	152,430,727	**152,430,727**	
Receivables from exchange transactions	37,800,000	-	**37,800,000**	-	**(37,800,000)**	
Other receivables from non-exchange transactions	-	-	**-**	3,372,109	**3,372,109**	
VAT receivable	-	-	**-**	38,803,053	**38,803,053**	
Consumer debtors	241,620,511	-	**241,620,511**	78,259,713	**(163,360,798)**	
Cash and cash equivalents	31,116,954	-	**31,116,954**	34,336,670	**3,219,716**	
	310,537,465	**-**	**310,537,465**	**307,202,272**	**(3,335,193)**	
Non-Current Assets						
Investment property	305,153,000	-	**305,153,000**	136,298,073	**(168,854,927)**	
Property, plant and equipment	2,275,918,000	-	**2,275,918,000**	1,020,710,148	**(1,255,207,852)**	
Intangible assets	11,051	-	**11,051**	-	**(11,051)**	
Heritage assets	360,341	-	**360,341**	360,341	**-**	
	2,581,442,392	**-**	**2,581,442,392**	**1,157,368,562**	**(1,424,073,830)**	
Total Assets	**2,891,979,857**	**-**	**2,891,979,857**	**1,464,570,834**	**(1,427,409,023)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	427,875,000	-	**427,875,000**	608,845,015	**180,970,015**	
Consumer deposits	4,932,000	-	**4,932,000**	3,625,348	**(1,306,652)**	
Employee benefit obligation	28,472,220	-	**28,472,220**	5,646,300	**(22,825,920)**	
Unspent conditional grants and receipts	-	-	**-**	21,773,768	**21,773,768**	
Provisions	-	-	**-**	1,202,614	**1,202,614**	
	461,279,220	**-**	**461,279,220**	**641,093,045**	**179,813,825**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	32,459,499	**32,459,499**	
Provisions	30,719,000	-	**30,719,000**	34,696,325	**3,977,325**	
	30,719,000	**-**	**30,719,000**	**67,155,824**	**36,436,824**	
Total Liabilities	**491,998,220**	**-**	**491,998,220**	**708,248,869**	**216,250,649**	
Net Assets	**2,399,981,637**	**-**	**2,399,981,637**	**756,321,965**	**(1,643,659,672)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	2,399,981,637	-	**2,399,981,637**	756,321,965	**(1,643,659,672)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	96,723,000	3,475,000	**100,198,000**	94,356,896	**(5,841,104)**	
Service charges	276,355,000	(3,504,000)	**272,851,000**	164,118,264	**(108,732,736)**	
Grants	240,626,000	10,496,000	**251,122,000**	234,356,007	**(16,765,993)**	
Interest income	19,196,000	(1,700,000)	**17,496,000**	2,892,684	**(14,603,316)**	
Other revenue	22,911,000	6,851,000	**29,762,000**	2,407,680	**(27,354,320)**	
	655,811,000	**15,618,000**	**671,429,000**	**498,131,531**	**(173,297,469)**	
Payments						
Employee costs	(179,047,000)	(1,228,000)	**(180,275,000)**	(183,603,760)	**(3,328,760)**	
Suppliers	(364,434,000)	7,187,000	**(357,247,000)**	(189,518,717)	**167,728,283**	
Finance costs	(7,200,000)	(8,000,000)	**(15,200,000)**	(22,988,639)	**(7,788,639)**	
Transfers and grants	(12,904,000)	-	**(12,904,000)**	-	**12,904,000**	
	(563,585,000)	**(2,041,000)**	**(565,626,000)**	**(396,111,116)**	**169,514,884**	
Net cash flows from operating activities	**92,226,000**	**13,577,000**	**105,803,000**	**102,020,415**	**(3,782,585)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(112,170,000)	(4,599,000)	**(116,769,000)**	(88,834,055)	**27,934,945**	
Net increase/(decrease) in cash and cash equivalents	(19,944,000)	8,978,000	**(10,966,000)**	13,186,360	**24,152,360**	
Cash and cash equivalents at the beginning of the year	44,710,000	-	**44,710,000**	21,150,317	**(23,559,683)**	
Cash and cash equivalents at the end of the year	**24,766,000**	**8,978,000**	**33,744,000**	**34,336,677**	**592,677**	

The accounting policies on pages 14 to 47 and the notes on pages 48 to 88 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the MFMA.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous year.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables, loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that key assumptions assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of economic factors such as inflation and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On trade receivables from exchange and non-exchange, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the trade receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

The provision for doubtful debt is determined by taking into account the payment rate by exchange receivable (consumer debtor), indigent status, whether the consumer debtor has a credit balance at financial year end as well as whether the consumer debtor is government related or not.

Non-exchange receivables (Traffic fine debtors) have been impaired taking into account historical payment rates by these non-exchange receivables.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Traffic fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Non exchange receivables arising from traffic fines are measured at the best estimate based on expected inflows of economic benefits to the municipality.

Budget information

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences (between budget and actual amounts) are explained in the notes to the annual financial statements.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.5 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

1.6 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Landfill sites	Straight line	4 - 17 years
Land and buildings	Straight line	5 - 50 years
Plant and machinery	Straight line	5 - 15 years
Furniture and fixtures	Straight line	5 - 15 years
Motor vehicles	Straight line	4 - 20 years
Office equipment	Straight line	5 - 15 years
Computer software	Straight line	5 - 15 years
Infrastructure	Straight line	3 - 100 years
Community	Straight line	5 - 50 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.7 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.8 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Accounting Policies

1.8 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 years
Website development costs	Straight line	5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.9 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Accounting Policies

1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Accounting Policies

1.10 Financial instruments (continued)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.10 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

1.10 Financial instruments (continued)

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

1.10 Financial instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

1.10 Financial instruments (continued)

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.11 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or

Accounting Policies

1.11 Statutory receivables (continued)

- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Accounting Policies

1.13 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.14 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.14 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.15 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.15 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.16 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.17 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.17 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.17 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.17 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.17 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.18 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

1.18 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;

1.18 Provisions and contingencies (continued)

- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.15.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.19 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.20 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.20 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.21 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by a property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.23 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.27 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

Accounting Policies

1.28 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.31 Value Added Tax

The municipality accounts for VAT on the payment basis.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 20: Related parties	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	It is expected that the Standard will affect the valuation of Receivables from Non-Echange Transactions, but the extent cannot be determined at this stage.
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The effect of this Standard on accounting for transactions between the municpality, another function of government or private sector and third parties, can only be determined once it becomes effective.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Impact is currently being assessed

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Inventories

Consumable stores	1,714,286	1,767,163
Water	49,440	29,002
Unsold Properties Held for Resale	150,667,001	150,667,000
	152,430,727	**152,463,165**

4. Consumer debtors

Gross balances		
Rates	118,243,271	100,643,921
Electricity	56,676,043	46,781,847
Water	66,041,369	53,447,761
Sewerage	24,022,172	19,918,552
Refuse	23,346,515	19,201,036
Housing rental	5,351,041	2,857,405
Other (Sundry services)	9,568,382	5,382,133
	303,248,793	**248,232,655**
Less: Allowance for impairment		
Rates	(83,434,689)	(87,710,492)
Electricity	(39,887,081)	(31,421,323)
Water	(52,748,444)	(44,504,898)
Sewerage	(19,429,262)	(17,300,353)
Refuse	(18,286,876)	(16,604,502)
Housing rental	(4,870,228)	(2,445,742)
Other (Sundry services)	(6,332,500)	(5,881,401)
	(224,989,080)	**(205,868,711)**
Net balance		
Rates	34,808,582	12,933,429
Electricity	16,788,962	15,360,524
Water	13,292,925	8,942,863
Sewerage	4,592,910	2,618,199
Refuse	5,059,639	2,596,534
Housing rental	480,813	411,663
Other (Sundry services)	3,235,882	(499,268)
	78,259,713	**42,363,944**
Included in above is receivables from exchange transactions		
Electricity	16,788,962	15,360,524
Water	13,292,925	8,942,863
Sewerage	4,592,910	2,618,199
Refuse	5,059,639	2,596,534
Other (Sundry services)	3,235,882	(499,268)
Housing rental	480,813	411,663
	43,451,131	**29,430,515**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	34,808,582	12,933,429
Net balance	**78,259,713**	**42,363,944**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Consumer debtors (continued)

Rates		
Current (0 -30 days)	6,453,789	6,060,587
31 - 60 days	3,164,567	3,009,798
61 - 90 days	2,825,200	2,660,265
91 - 120 days	2,642,531	2,630,037
> 121 days	103,157,183	86,283,236
	118,243,270	**100,643,923**

Electricity		
Current (0 -30 days)	7,700,048	7,604,950
31 - 60 days	2,781,868	1,998,638
61 - 90 days	2,215,990	1,554,189
91 - 120 days	1,785,814	1,827,310
> 121 days	42,192,323	33,838,965
	56,676,043	**46,824,052**

Water		
Current (0 -30 days)	4,625,254	4,038,043
31 - 60 days	2,054,654	1,840,598
61 - 90 days	1,857,914	1,321,540
91 - 120 days	1,526,099	1,543,335
> 121 days	55,977,449	45,143,235
	66,041,370	**53,886,751**

Sewerage		
Current (0 -30 days)	1,173,138	1,161,797
31 - 60 days	649,748	607,036
61 - 90 days	588,833	553,798
91 - 120 days	573,375	527,624
> 121 days	21,037,076	17,605,368
	24,022,170	**20,455,623**

Refuse		
Current (0 -30 days)	1,596,962	1,523,409
31 - 60 days	700,624	696,904
61 - 90 days	665,168	607,561
91 - 120 days	631,309	576,246
> 121 days	19,752,453	15,835,006
	23,346,516	**19,239,126**

Housing rental		
Current (0 -30 days)	269,636	277,602
31 - 60 days	244,551	205,222
61 - 90 days	234,835	176,109
91 - 120 days	233,588	171,826
> 121 days	4,368,431	2,026,646
	5,351,041	**2,857,405**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Consumer debtors (continued)

Other (sundries)		
Current (0 -30 days)	38,400	46,188
31 - 60 days	37,401	46,356
61 - 90 days	36,206	81,742
91 - 120 days	36,995	42,854
> 121 days	9,419,381	5,978,315
	9,568,383	**6,195,455**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	9,840,288	-
31 - 60 days	3,859,342	-
61 - 90 days	3,740,508	-
91 - 120 days	3,182,697	-
> 121 days	110,500,631	-
	131,123,466	-
Less: Allowance for impairment	(114,820,525)	-
	16,302,941	**-**

Industrial/ commercial		
Current (0 -30 days)	9,926,469	-
31 - 60 days	4,910,180	-
61 - 90 days	3,809,142	-
91 - 120 days	3,326,429	-
>121 days	108,543,319	-
	130,515,539	-
Less: Allowance for impairment	(102,875,979)	-
	27,639,560	**-**

National and provincial government		
Current (0 -30 days)	2,090,469	-
31 - 60 days	863,890	-
61 - 90 days	874,496	-
91 - 120 days	920,586	-
> 121 days	36,860,345	-
	41,609,786	-
Less: Allowance for impairment	(7,292,574)	-
	34,317,212	**-**

Total		
Current (0 -30 days)	21,857,227	-
31 - 60 days	9,633,412	-
61 - 90 days	8,424,146	-
91 - 120 days	7,429,711	-
> 121 days	255,904,297	-
	303,248,793	-
Less: Allowance for impairment	(224,989,080)	-
	78,259,713	**-**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Consumer debtors (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(205,868,711)	(191,398,912)
Contributions to allowance	(19,120,369)	(14,683,374)
Other	-	213,575
	(224,989,080)	**(205,868,711)**

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each type of consumer receivable listed above. The municipality does not hold any collateral as security.

5. Other receivables from non-exchange transactions

Fines	2,685,817	234,600
Other receivables from non-exchange revenue	686,292	1,315,052
	3,372,109	**1,549,652**

Other receivables from non-exchange transactions past due but not impaired

Traffic fine revenue has been recognised using the traffic fine registers which is in accordance with iGRAP 2. The required information was however not available to calculate an impairment provision for the traffic fines issued but not yet settled as at 30 Juneet.

6. VAT receivable

VAT	38,803,053	40,191,280

No interest is payable to SARS if the VAT is paid over timeously. Interest for late payments is charged according to SARS policy.

The Municipality has financial risk policies in place to ensure that payments are effected before its due date.

The municipality accounts for VAT on the payments basis. All VAT 201 forms were filed during the financial year.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	6,273,188	2,686,874
Short-term deposits	28,063,482	18,463,443
	34,336,670	**21,150,317**

The total amount of undrawn facilities available for future operating activities and commitments - Standard Bank Fleet Management Facility	-	160,000

Notes to the Annual Financial Statements

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2018	Bank statement balances 30 June 2017	Bank statement balances 30 June 2016	Cash book balances 30 June 2018	Cash book balances 30 June 2017	Cash book balances 30 June 2016
Absa Lydenburg (10-1000-0218)	274,953	314,416	1,431,694	274,953	314,416	1,431,694
Absa Thaba Chweu Projects (40-8177-4894)	8,036	6,222	3,575	8,036	6,222	3,575
Absa Sabie (40-5826-4705)	170,912	63,019	75,128	170,912	63,019	75,128
Standard Bank-Ringfence Electricity (488-610-621-004)	9,922,670	14,764,943	53,454	9,922,670	14,764,943	53,454
Standard Bank - Primary Account (24-320-336-5)	5,779,736	2,287,831	3,220,024	5,779,736	2,287,831	3,215,299
Standard Bank - Traffic (250-970-627-000)	47,587	21,609	140,754	47,587	21,609	140,754
Standard bank Call - Post Office (488-610-621-001)	64,687	61,111	57,561	64,687	61,111	57,561
Standard Bank MIG - Call (488-610-621-002)	12,514,237	3,404,552	248,208	12,514,237	3,404,552	248,208
Standard Bank MWIG - Call (488-610-621-003)	5,553,851	226,614	11,183	5,553,851	226,614	11,183
Total	**34,336,669**	**21,150,317**	**5,241,581**	**34,336,669**	**21,150,317**	**5,236,856**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Landfill site	41,967,620	(12,147,163)	29,820,457	50,168,129	(6,068,679)	44,099,450
Land and buildings	166,332,844	(57,223,046)	109,109,798	166,332,844	(50,239,190)	116,093,654
Plant and machinery	5,191,734	(1,429,781)	3,761,953	5,058,735	(1,111,045)	3,947,690
Furniture and fixtures	5,946,357	(4,413,389)	1,532,968	5,528,334	(3,910,947)	1,617,387
Motor vehicles	20,286,911	(4,759,999)	15,526,912	11,040,145	(4,025,958)	7,014,187
Office equipment	2,279,062	(1,430,343)	848,719	2,059,288	(1,241,656)	817,632
IT equipment	3,252,564	(2,310,414)	942,150	2,996,495	(2,101,132)	895,363
Infrastructure	905,575,207	(248,257,904)	657,317,303	825,311,221	(213,250,448)	612,060,773
Community	231,311,775	(73,942,680)	157,369,095	223,423,854	(64,825,722)	158,598,132
Other property, plant and equipment	44,480,793	-	44,480,793	54,072,276	-	54,072,276
Total	**1,426,624,867**	**(405,914,719)**	**1,020,710,148**	**1,345,991,321**	**(346,774,777)**	**999,216,544**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers	Reduction due to GRAP 19 re-measure	Depreciation	Total
Landfill site	44,099,450	-	-	(8,200,509)	(6,078,484)	29,820,457
Land and buildings	116,093,654	-	-	-	(6,983,856)	109,109,798
Plant and machinery	3,947,690	132,999	-	-	(318,736)	3,761,953
Furniture and fixtures	1,617,387	418,023	-	-	(502,442)	1,532,968
Motor vehicles	7,014,187	9,246,766	-	-	(734,041)	15,526,912
Office equipment	817,632	219,774	-	-	(188,687)	848,719
IT equipment	895,363	256,070	-	-	(209,283)	942,150
Infrastructure	612,060,773	-	80,263,985	-	(35,007,455)	657,317,303
Community	158,598,132	-	7,887,921	-	(9,116,958)	157,369,095
Other property, plant and equipment	54,072,276	78,560,423	(88,151,906)	-	-	44,480,793
	999,216,544	**88,834,055**	**-**	**(8,200,509)**	**(59,139,942)**	**1,020,710,148**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Landfill site	14,176,903	-	-	12,794,000	23,197,226	(6,068,679)	-	44,099,450
Land and buildings	120,869,234	-	(139,410)	1,959,676	-	(6,595,846)	-	116,093,654
Plant and machinery	918,429	3,612,285	(3,522)	-	-	(293,401)	(286,101)	3,947,690
Furniture and fixtures	2,149,023	126,781	(21,432)	-	-	(497,314)	(139,671)	1,617,387
Motor vehicles	5,845,655	2,608,627	(451,475)	-	-	(836,798)	(151,822)	7,014,187
Office equipment	821,807	187,900	(11,999)	-	-	(179,767)	(309)	817,632
IT equipment	1,685,917	-	(10,673)	-	-	(204,024)	(575,857)	895,363
Infrastructure	606,717,750	-	-	37,541,726	-	(31,791,430)	(407,273)	612,060,773
Community	167,220,318	-	-	-	-	(8,617,271)	(4,915)	158,598,132
Other property, plant and equipment	14,263,380	79,310,298	-	(39,501,402)	-	-	-	54,072,276
	934,668,416	**85,845,891**	**(638,511)**	**12,794,000**	**23,197,226**	**(55,084,530)**	**(1,565,948)**	**999,216,544**

8. Property, plant and equipment (continued)

Depreciation rates

Land	Straight line	Indefinite
Buildings	Straight line	5 - 50 years
Landfill sites	Straight line	4 - 19 years
Plant and machinery	Straight line	5 - 15 years
Furniture and fixtures	Straight line	5 - 15 years
Motor vehicles	Straight line	4 - 20 years
Office equipment	Straight line	5 - 15 years
Computer software	Straight line	5 -15 years
Infrastructure	Straight line	3 - 100 years
Community	Straight line	5 - 50 years

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	49,421,129	4,651,146	54,072,275
Additions	75,323,649	3,236,774	78,560,423
Transferred to completed items	(80,263,985)	(7,887,920)	(88,151,905)
	44,480,793	**-**	**44,480,793**

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within buildings	Total
Opening balance	12,303,979	-	1,959,676	14,263,655
Additions	74,659,151	4,651,146	-	79,310,297
Transferred to completed items	(37,541,726)	-	(1,959,676)	(39,501,402)
	49,421,404	**4,651,146**	**-**	**54,072,550**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	136,298,073	-	136,298,073	131,227,862	-	131,227,862

Reconciliation of investment property - 2018

	Opening balance	**Fair value adjustments**	**Total**
Investment property	131,227,862	5,070,211	136,298,073

Reconciliation of investment property - 2017

	Opening balance	**Transfers**	**Fair value adjustments**	**Total**
Investment property	213,599,077	(76,231,614)	(6,139,601)	131,227,862

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Heritage assets

	2018			2017		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	360,341	-	360,341	360,341	-	360,341

Reconciliation of heritage assets 2018

Art Collections, antiquities and exhibits	360,341	360,341

Reconciliation of heritage assets 2017

	Opening balance	**Total**
Art Collections, antiquities and exhibits	360,341	360,341

11. Payables from exchange transactions

Trade payables	548,315,132	476,570,422
Leave accrual	14,101,603	7,187,100
Payments received in advanced - Trade Receivables	10,075,671	15,750,978
Retentions	9,864,134	8,532,458
Other payables	8,891,424	10,867,920
Accruals	7,625,960	4,981,892
Staff bonus accrual	4,088,468	-
Deferred income	3,724,007	2,611,786
Unallocated deposits	2,158,622	1,315,052
	608,845,021	**527,817,608**

Due to the material nature of the leave accrual and staff bonus accrual, these two accruals were disclosed separately from the accruals as per the accruals listing which totals R7,625,960.

12. Consumer deposits

Electricity	3,625,348	3,856,824

Consumer deposits are paid by consumers on application of new electricity connections. The deposits are repaid when the electricity connections are terminated.

In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid by the municipality on consumer deposits held.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Dept of Minerals and Energy	3,745,460	-
Dept of Public Services and Administration (DPSA)	16,832,770	6,599,000
Water Services Infrastructure Grant (WSIG)	489,608	913,257
Electricity efficiency and demand	705,930	-
	21,773,768	**7,512,257**

Movement during the year

Balance at the beginning of the year	7,512,257	-
Additions during the year	111,233,000	101,086,000
Income recognition during the year	(96,971,489)	(93,573,743)
	21,773,768	**7,512,257**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 22 for reconciliation of grants from National/Provincial Government.

14. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provices certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired member of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method. The liability for in-service members is accrued over their expected working lifetimes.

At the valuation date of 30 June 2018, membership of health care arrangements entitled to a post-employment medical aid subsidy was 225 in-service members (employees) and 20 continuation members (retirees and widows).

Post retirement gratuity plan

The municipality has an obligation in respect of the entitlement of employees to long service awards (LSA). The LSA is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.

There are 493 employees that are currently entitled to Long Service Awards. The expected remaining working-lifetime of eligible employees is 18.8 years. The average age of employees eligible for long service bonus awards as at 30 June 2018

The Municipality offers employees bonuses for every 5 years of completed service from 10 to 45 years.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(32,671,672)	(29,929,309)
Present value of the long service award obligation-wholly funded	(8,485,000)	(7,387,000)
Decrease / (Increase) in defined benefit obligation	4,687,873	(2,742,363)
Increase in long service award obligation	(1,637,000)	(1,098,000)
	(38,105,799)	**(41,156,672)**

Non-current liabilities	(32,459,499)	(35,279,333)
Current liabilities	(5,646,300)	(5,877,339)
	(38,105,799)	**(41,156,672)**

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

Changes in the present value of the DEFINED BENEFIT OBLIGATION are as follows:

Opening balance	(32,671,672)	(29,929,309)
Current service cost	(1,164,138)	(1,108,064)
Current interest cost	(3,235,201)	(2,722,970)
Medical contribution subisidies for continuation pensioners	832,856	1,339,264
Actuarial (gain)/loss for the year	8,254,356	(250,593)
	(27,983,799)	**(32,671,672)**

Net expense recognised in the statement of financial performance

Current service cost - defined benefit plan	1,164,138	1,108,064
Current service cost - long service awards	759,000	586,000
Interest cost - defined benefit plan	3,235,201	2,722,970
Interest cost - long service awards	719,000	637,000
Actuarial (gains) losses - defined benefit plan	(8,254,356)	250,593
Actuarial losses - long service awards	634,000	219,000
	(1,743,017)	**5,523,627**

Calculation of actuarial gains and losses

Actuarial (gains) losses – defined benefit plan	(8,254,356)	250,593
Actuarial (gains) losses – long service awards	634,000	219,000
	(7,620,356)	**469,593**

Changes in the present value of the LONG SERVICE AWARD obligation are as follows:

Opening balance	(8,485,000)	(7,387,000)
Current service cost	(759,000)	(586,000)
Current interest cost	(719,000)	(637,000)
Actuarial loss for the financial year	(634,000)	(219,000)
Benefits paid	475,000	344,000
	(10,122,000)	**(8,485,000)**

The municipality expects to contribute R 1,111,332 to its defined benefit plans in the following financial year.

14. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2018	2017
Discount rate [D] - Defined Benefit Plan	9.91 %	10.03 %
Discount rate (D) - Long Service Awards	8.92 %	8.72 %
General salary inflation rate - Long term	6.44 %	6.52 %
Health care cost inflation [H]	7.92 %	8.34 %
Consumer Price Inflation [C] - Defined benefit plan	6.42 %	6.84 %
Consumer Price Inflation [C] - Long service awards	5.52 %	5.44 %
Defined benefit plan - Net discount rate - [(1+D)/(1+H)-1]	1.18 %	1.56 %
Long service awards - Net discount rate	2.33 %	2.07 %

DEFINED BENEFIT PLAN - Explanation of assumptions used

Two of the most important financial variables used in the GRAP 25 valuation is the net discount rate and the medical inflation rate.

The medical inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate inflation South Africa has experienced significant increases in health care cost inflation in recent years.

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

It is difficult to predict future investment returns and health care cost infation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the valuation date for the period which the obligations are to be settled.

Discount rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current rates along the yield curve.

Consequently, a discount rate of 9.91% per annum has been used. The corresponding index-linked yield at this term is 2.81%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Stock Exchange after the market close on 30 June 2018.

Health care cost inflation rate

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs. Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.92% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, consistent with the previous actuary.

However, it is the relative levels of the discount rate and health care inflation to one another that are important, rather than the nominal values. The actuarial consultant thus assumed a net discount factor of 1.56% per annum ([1 + 9.92%] / [1 + 7.92%] - 1]. This year's valuation basis is therefore stronger than previous year's basis from a discount rate perspective.

Demographic, decrement, withdrawal rates and continuation assumptions

These assumptions used are consistent with the assumptions used in the prior year. The actuarial consultant have assumed the continuation of the post-employment health care subsidy would be at 100% of active employees or their surviving dependents.

Notes to the Annual Financial Statements

14. Employee benefit obligations (continued)

LONG SERVICE AWARDS - Explanation of assumptions used

As stipulated above, GRAP 25 requires that the discount rate used should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities.

The methodology for setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2017 the dduration of liabilities was 6.64 years. At this duration, the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2018 is 8.92% p.a. The yield on inflation linked bonds of a similar term was approximately 2.83% per annum. This an underlying expectation of inflation of 5.44% p.a. ([1 + 8.92% - 0.5%] / [1 + 2.83%] - 1).

It has been assumed by the actuarial consultant that salary inflation would exceed general inflation by 1% p.a. i.e. 6.44%

It is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. The actuarial consultant have thus assumed a net discount factor of 2.33% p.a. ([1 + 8.92%] / [1 + 6.44%] - 1).

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	4,666,296	(3,361,950)
Effect on defined benefit obligation	32,210,964	24,523,142

Amounts for the current and previous four years are as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	27,983,799	32,671,672	29,929,309	-	-
Long term service award obligation	10,122,000	8,485,000	7,387,000	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Unwinding of discount	Reduction due to re-measurement	Total
Environmental rehabilitation	42,814,998	1,284,450	(8,200,509)	35,898,939

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	41,632,668	1,182,330	42,814,998

	2018	2017
Non-current liabilities	34,696,325	41,530,548
Current liabilities	1,202,614	1,284,450
	35,898,939	**42,814,998**

Environmental rehabilitation provision

The municipality has an obligation to rehabilitate its landfill site in terms of its license stipulations. The net present value of the rehabilitation cost of landfill sites has been determined as at 30 June 2018 by technical specialists.

The environmental rehabilitation provision relates to three landfill sites namely Lydenburg, Graskop and Sabie.The number of years till closure for these respective landfill sites have been listed below.

Number of years till closure of landfill sites		
Lydenburg	3	-
Graskop	16	-
Sabie	8	-
	-	**-**

The discount rate was deduced from the GOVI longbond.The annualised rate at this date was 9.42%. The consumer price inflation.

The consumer price inflation of 6.12% p.a. is obtained from the differential between the long-term market yields on the index-linked bond (the R197 at 2.47% p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.73% p.a.).

The bond rates were obtained from the Bond Exchange of South Africa after the market closed on 19 June 2017. The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below. The net discount rate being used is 3.11%.

Key Financial Assumptions used		
Discount rate (D)	9	-
Consumer Price Inflation (C)	(6)	-
Net discount rate ((1 + D) / (1 + H) - 1))	**3**	**-**

Notes to the Annual Financial Statements

	2018	2017 Restated*

16. Service charges

Sale of electricity	132,482,616	125,377,768
Sale of water	37,134,126	34,111,191
Sewerage and sanitation charges	10,788,943	10,412,376
Refuse removal	13,088,867	12,764,985
	193,494,552	**182,666,320**

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

The service charges for both the 2017 and 2018 financial years have been disclosed after factoring in the total indigent subsidy expense of R6,092,917 for year ending 30 June 2018 and R5,250,707 for year ending 30 June 2017.

All registered indigents receive 100% subsidization on rates, refuse and sanitation. Indigents receive up to 10KL of water free every month as well as receiving 50KWH of electricity for free. Indigents are also able to purchase their first 350KWH of electricity every month at a subsidised rate.

17. Interest revenue

Interest revenue		
Bank	2,892,684	2,234,394
Interest charged on trade and other receivables	19,667,187	16,789,057
	22,559,871	**19,023,451**

18. Other income

Tender documents	905,270	644,126
Building plan fees	408,954	235,352
Sale of stands	349,820	894,474
Information supplied	243,744	23,997
Reconnections	214,167	211,967
Clearance certificates	197,567	209,032
Rezoning and consent use applications	173,466	74,956
Sundry income	112,319	667,237
Bulk services	90,538	98,099
Advertisement boards	87,581	118,946
Grave fees	69,261	71,375
Unallocated deposits released to income	1,023,011	3,925,526
	3,875,698	**7,175,087**

19. Rental of facilities and equipment

Premises		
Premises	2,904,719	3,105,687
Venue hire	83,551	67,225
	2,988,270	**3,172,912**

The rental income from premises is generated from renting out the Mashishing flats, hostels, town lands as well as municipal houses and municipal buildings.

Venue hire is primarily generated from the rental of municipal halls.

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

20. Agency services

Vehicle Registration	-	79,929

21. Property rates

Rates received

Residential	29,156,012	30,882,319
Small holdings and farms	21,416,585	20,993,724
Undeveloped land	15,774,336	15,885,595
State	14,860,292	14,579,813
Commercial	13,331,957	12,464,616
Industrial	2,064,019	2,167,242
Institutional	623,838	500,235
Less: Income forgone	(2,870,143)	(2,469,042)
	94,356,896	**95,004,502**

The residential property rates for both the 2018 and 2017 financial years have been disclosed after factoring in the total indigent support for rates expense of R2,098,113 for year ending 30 June 2018 and R1,623,374 for year ending 30 June 2017.

Valuations

Residential	5,372,911,330	5,322,823,730
Small holdings and farms	3,220,458,500	3,107,548,500
Multi purposes properties	1,584,523,300	1,572,713,300
Commercial	1,246,857,400	1,363,477,500
State	1,129,104,700	1,254,824,700
Municipal	578,672,640	569,175,140
Undeveloped land	361,459,050	361,531,850
Industrial Property	177,476,700	177,476,700
Institutional	173,821,200	164,191,400
	3,845,284,820	**3,893,762,820**

Every five years the municipality compiles a valuation roll based on the value of land and buildings. The current valuation roll came into effect on 1 July 2014. The supplementary valuation is compiled on an annual basis. Changes to valuations are effected on a continuous basis. The last general valuation came into effect on 1 July 2012. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.01227 (2017: R0.01227) is applied to property valuations to determine assessment rates. Rebates of 50% (2017: 50%) are granted to residential owners. Farm properties used for agricutural purposes (FAR) and farm properties not used for any purpose (AGN) as well as Public Benefit Organisations (PBO) receive rebates of 85%. Public Service Infrastructure organisations (PSI) receive rebates of 30% whilst indigents receive property tax rebates of 100%.

Rates are levied on an annual basis with the final date for payment being Saturday, 30 June 2018 (Friday, 30 June 2017). Interest is charged at prime plus 1% per annum.

The new general valuation will be implemented on 01 July 2019.

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

22. Government grants and subsidies

Operating grants		
Equitable share	124,393,050	115,054,000
INEP grant	9,254,540	500,000
Financial Manangement Grant	2,145,000	1,810,000
National EPWP grant	638,956	1,683,000
Department Of Public Service & Administration (DPSA)	423,650	511,743
Energy efficiency grant	294,070	-
	137,149,266	**119,558,743**
Capital grants		
Municipal Infrastructure Grants	48,179,000	61,025,100
Municipal Water Infrastructure Grant	34,766,231	28,044,000
	82,945,231	**89,069,100**
	220,094,497	**208,627,843**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	-	101,086,000
Unconditional grants received	-	115,054,000
	-	**216,140,000**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive 100% subsidization on rates, refuse and sanitation. Indigents receive up to 10KL for free every month as well as receiving 50KWH of electricity for free. Indigents are also able to purchase their first 350KWH of electricity every month at a subsidised rate.

Municipal Infrastructure Grant (MIG)

Current-year receipts	48,179,000	61,025,000
Conditions met - transferred to revenue	(48,179,000)	(61,025,000)
	-	-

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

Financial Management Grant (FMG)

Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,145,000)	(1,810,000)
	-	-

This grant is used to assist in support and implementation of financial management reforms, attendance at accredited training and capacity building programmes on financial management.

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

22. Government grants and subsidies (continued)

Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	6,599,000	-
Current-year receipts	45,000,000	34,643,000
Conditions met - transferred to revenue	(34,766,230)	(28,044,000)
	16,832,770	**6,599,000**

The grant has been provided by department of Water Affairs to try to get water to areas where it was recognised that full services would not become available.

INEP Grant

Current-year receipts	13,000,000	500,000
Conditions met - transferred to revenue	(9,254,540)	(500,000)
	3,745,460	**-**

This grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

DPSA Grant

Balance unspent at beginning of year	913,257	-
Current-year receipts	-	1,425,000
Conditions met - transferred to revenue	(423,649)	(511,743)
	489,608	**913,257**

Conditions still to be met - remain liabilities (see note 13).

Energy efficiency grant

Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(294,070)	-
	705,930	**-**

Conditions still to be met - remain liabilities (see note 13).

Expanded Public Works Program (EPWP)

Current-year receipts	1,909,000	1,683,000
Conditions met - transferred to revenue	(1,909,000)	(1,683,000)
Other	-	-
	-	**-**

Conditions still to be met - remain liabilities (see note 13).

The grant relates to the labour component within water infrastructure .

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

23. Public contributions and donations

Duma power station	2,407,680	-

The funds received represents a donation from National Treasury in relation to a PPP arrangement for Duma Power Station.

24. Fines, Penalties and Forfeits

Municipal Traffic Fines	3,245,650	2,439,950
Illegal Connections Fines	865,806	1,255,210
Building Fines	2,890	1,000
	4,114,346	**3,696,160**

25. Other revenue

Other income - (rollup)	3,875,698	7,175,087

26. Revenue

Service charges	193,494,552	182,666,320
Rental of facilities and equipment	2,988,270	3,172,912
Agency services	-	79,929
Other income	3,875,698	7,175,087
Interest received - investment	22,559,871	19,023,451
Property rates	94,356,896	95,004,502
Government grants & subsidies	220,094,497	208,627,843
Public contributions and donations	2,407,680	-
Fines, Penalties and Forfeits	4,114,346	3,696,160
	543,891,810	**519,446,204**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	193,494,552	182,666,320
Rental of facilities and equipment	2,988,270	3,172,912
Agency services	-	79,929
Other income	3,875,698	7,175,087
Interest received - investment	22,559,871	19,023,451
	222,918,391	**212,117,699**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	94,356,896	95,004,502
Transfer revenue		
Government grants & subsidies	220,094,497	208,627,843
Public contributions and donations	2,407,680	-
Fines, Penalties and Forfeits	4,114,346	3,696,160
	320,973,419	**307,328,505**

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

27. Employee related costs

Basic	102,564,406	93,144,997
Defined contribution plans	19,754,162	17,691,615
Car allowance	14,675,915	12,476,372
Overtime payments	8,035,974	7,758,020
Bonus	7,911,495	6,632,889
Leave pay provision charge	7,546,729	2,479,078
Medical aid - company contributions	6,598,445	5,726,973
13th Cheques	4,088,468	-
Cellphone allowances	3,365,958	2,729,556
Standby allowances	2,982,189	2,738,400
Long-service awards	3,218,514	290,000
Shift allowances	1,162,810	985,948
Post Employment Medical Aid	1,152,522	1,219,312
Housing benefits and allowances	960,315	942,790
UIF	808,903	780,264
Insurance Group Life	383,733	369,234
Other payroll levies	45,235	41,603
	185,255,773	**156,007,051**

In the prior year total medical aid - company contributions was incorrectly reflected as R23,418,588. This was incorrect as the amount included defined contribution plan expense of R17,691,615 which has now been separately disclosed.

The skills development levy expense of R1,301,005 was reclassified from employee related costs to general expenses to be aligned with the mscoa chart mapping for this expense item.

Remuneration of municipal manager

Annual Remuneration	1,003,925	781,389
Contributions to UIF, Medical and Pension Funds	1,884	1,877
Acting allowance	-	349,185
Acting allowance back pay	-	107,345
Travel allowance	335,268	243,373
Cellphone Allowance	23,915	21,404
	1,364,992	**1,504,573**

Remuneration of chief finance officer

Annual Remuneration	773,777	659,414
Travel allowance	258,552	182,965
Cellphone allowance	38,283	-
Travel allowance back pay	-	32,475
Contributions to UIF, Medical and Pension Funds	1,884	1,877
Acting allowance	-	312,385
Acting allowance back pay	-	504,391
Other	-	11,123
	1,072,496	**1,704,630**

Remuneration of director - Corporate Services

Annual Remuneration	407,415	982,389
Basic salary back pay	-	475,979
Acting allowance	456,840	38,073

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

27. Employee related costs (continued)

Travel allowance	108,906	10,747
Contributions to UIF, Medical and Pension Funds	1,570	1,877
Cellphone allowance	19,837	21,404
	994,568	**1,530,469**

Remuneration of director - Technical Services

Annual Remuneration	591,233	592,013
Acting allowance	227,799	207,090
Travel allowance	213,014	199,955
Contributions to UIF, Medical and Pension Funds	-	1,877
Cellphone allowance	23,915	21,404
Other	1,884	1,832
Leave payout	25,514	-
	1,083,359	**1,024,171**

Remuneration of director - Community Services

Annual Remuneration	681,518	681,535
Travel allowance	227,799	227,799
Travel allowance back pay	10,049	636
Contributions to UIF, Medical and Pension Funds	1,884	1,877
Cellphone allowance	23,915	21,404
	945,165	**933,251**

Remuneration of director - Local Economic Development

Annual Remuneration	820,316	-
Acting allowance	76,197	-
Travel allowance	290,729	-
Cellphone allowance	23,915	-
Contributions to UIF, Medical and Pension Funds	1,884	-
	1,213,041	**-**

28. Bulk purchases

Electricity	121,753,325	126,180,570

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased in bulk on a monthly basis from ESKOM.

29. Depreciation and amortisation

Property, plant and equipment	59,139,942	55,084,528

* See Note 38

Notes to the Annual Financial Statements

30. General expenses

	2018	2017 Restated*
Electricity	26,680,769	22,734,099
Repairs and maintenance	13,441,860	25,041,273
Hire	1,574,726	4,897,552
Legal fees	2,138,592	7,793,182
Commission paid	6,477,274	5,524,004
Insurance	5,221,615	8,516,970
Auditors remuneration	5,313,381	6,644,095
Telephone and fax	3,862,931	1,928,385
Printing and stationery	2,494,347	3,346,857
Fuel and oil	2,355,147	1,445,025
Job creation expenses	2,246,700	2,888,599
Subscriptions and membership fees	2,038,018	1,069,509
Travel - local	2,023,788	2,048,849
Training	1,999,716	2,021,273
Computer expenses	1,512,977	3,482,493
Skills Development Levies	1,419,854	1,301,005
Other expenses	1,274,587	1,256,078
Consumables	305,070	997,957
Bank charges	825,976	996,214
Magazines, books and periodicals	752,999	1,924
Motor vehicle expenses	731,360	-
Conferences and seminars	633,394	1,254,028
Town planning and local economic development	548,990	-
Uniforms	523,676	-
Promotions	505,075	235,028
Free Basic Services	483,370	554,466
Consulting and professional fees	681,606	917,148
HIV / AIDS Programme	331,370	291,466
Postage and courier	302,458	395
Valuation costs	283,676	246,691
Disaster management	275,000	114,662
Billing charges	198,632	-
Staff welfare	183,032	107,600
Protective clothing	167,658	449,290
Cleaning	164,500	183,139
Placement fees	69,800	201,322
Refuse	40,392	35,585
Sewerage and waste disposal	3,775	13,772
Community development and training	-	12,350
Donations	105,656	-
	90,193,747	**108,552,285**

For the comparative year 30 June 2017 the fuel cost amounting to R1,445,025 has been split out of the hire cost expense in order to disaggregate the expense further for disclosure purposes.

Promotion costs were incorrectly identified as "stocks and materials" in the prior year. This has been corrected by including the promotion cost expense accounts and disclosing it within the "promotions" line item above.

The HIV / AIDS Programme expense has been split out from other expenses where it was included in the 30 June 2017 set of financials.

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

31. Debt impairment

Contributions to debt impairment provision	20,203,137	10,968,045
Bad debts written off	3,189,809	4,406,255
	23,392,946	**15,374,300**

32. Finance costs

Trade and other payables	21,876,923	10,891,560
Interest cost: post employment medical aid fund	3,235,201	2,747,592
Landfill site: unwinding of discount	1,284,450	1,182,330
Bank	1,111,716	1,015,804
Interest cost: long service awards	719,000	589,000
	28,227,290	**16,426,286**

33. Remuneration of councillors

Executive Mayor	856,414	793,028
Chief Whip	650,885	593,513
Speaker	691,129	648,623
MMC: Finance and Technical Services	649,811	598,850
MMC: Corporate services and Human Settlement	658,170	600,081
MMC: Community services and Public Services	668,437	615,729
Portolio Chairperson: MPAC	365,629	246,236
Ordinary Councillors	5,773,991	5,363,669
	10,314,466	**9,459,729**

In-kind benefits

The Executive Mayor, Speaker, Chief Whip, Portfolio Chairperson: MPAC and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has two full-time bodyguards.

34. Impairment of assets

Impairments		
Property, plant and equipment	-	1,565,949

35. Contracted services

Presented previously		
Other Contractors	12,278,534	12,103,532
Outsourced Services		
Connection/Dis-connection	160,146	817,838
Refuse Removal	3,940,940	3,154,258
Security Services	6,041,125	7,205,598
Traffic Fines Management	1,205,154	677,000

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*
35. Contracted services (continued)		
Consultants and Professional Services		
Business and Advisory	6,795,394	11,113,799
Legal Cost	7,010,677	-
Contractors		
Electrical	2,204,281	-
Maintenance of roads	4,134,055	-
Preservation/Restoration/Dismantling/Cleaning Serv	3,577,369	4,683,101
	47,347,675	**39,755,126**

36. Auditors' remuneration

Fees	5,313,381	6,644,095

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

37. Contingencies

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#	**Description/ Citation of Parties**	Citation at Court/ Case No.	**Description of the Nature of the Case**	Legal Representative	**Dispute Amount**	Current Status
1-2017	Blom & others/ Thaba Chweu Local Municipality	Pretoria High Court, Case No:	Applicant is claiming an amount suffered for building collapse based on submitted plans to TCLM.An exception has been argued and the matter is now ripe for trial once a date is allocated.	Matsane Attorneys	R5 076 608	Pending
2-2017	DUBERT TRADING CC/ Thaba Chweu Local Municipality	Pretoria High Court, Case No: 92064/ 2015	Applicant obtained an urgent court order to interdict TCLM on disconnecting electricity.Notice of intention to defend has been filed and an earlier court date to be anticipated with possibility of out of court settlement. Parties are discussing possible payment plan.	Matsane Attorneys	None	Pending
3-2017	South African securitisation programme & Fintech receivables/ TCLM	High court of Mbombela court case no: 3574/17	The Applicant is suing the municipality for services rendered in terms of the service level agreement.	Matsane Attorneys	R300 000	we are of the view that the claim has prescribe d
4-2017	Lydenburg, Graskop and Sabie chamber of commerce and tourism/ TCLM & others	High court of Mbombela court case no: 2295/17	Lydenburg, Graskop and Sabie business chamber jointly approached court to have the municipality pay 79,5 million to Eskom so to stop electricity interrutions supply.	Matsane Attorneys	None.	Parties to have a round table discussio n on payment way forward.
5-2018	MBB Consulting services/ TCLM	High court of Mbombela court case no: 215/18	The applicant sued the municipality for monies owed for services rendered on contractual basis. Claim of R14 140 981,09	Matsane Attorneys	R14,140,981	Pending
6-2018	Apostolie Geloof / TCLM	Magistrate Court Sabie Case no:110/2018	The applicant claims monies for services paid on religious property that they dispute to pay based on legislation not applicable to them	Thobela Attorneys	None.	Pending

* See Note 38

37. Contingencies (continued)

7-2017	SAMWU obo Members/ Thaba Chweu Local Municipality	JHB Labour Court, Case No: JS 2106/13	SAMWU (Applicant) made an application to the labour Court seeking the municipality to implement placement of its members in certain position ,following an agreement entered into between SAMWU and the then Accounting Officer Mr.B. Koma in December 2012.Parties to argue costs once a trial date is allocated. The appointments have not been effected. On 8 October 2013 SAMWU obtained an order compelling the municipality to appoint the workers into the said positions municipality failed to defend and a default judgement was granted against the municipality ,but still the Municipality could not implement the order .SAMWU the sought an order for contempt of court.Both orders (Rescission and contempt) were challenged in court, and the initial default was rescinded, the contempt is yet to sit.The court however refused to review and set aside the contracts on the basis of which the aforementioned applications by SAMWU had been brought. the court ruled that a separate application based of the Promotion of Administrative justice Act 3 of 2000.This application is currently being prepared and is due to be launched by the due date of 26 march 2015.On the other hand, SAMWU has lodged an application for leave to appeal the order of 11 February 2015. The petition for leave to appeal has been refused with no order to costs on the 19th of August 2015. Currently busy with PAJA application on this matter.	Phungo Inc	None.	Pending

Notes to the Annual Financial Statements

	2018	2017 Restated*

37. Contingencies (continued)

8-2018	TCLM/ SAMWU-TCLM EMPLOYEES	Labour cour of RSA- Johannesburg case no: J2268/18	Municipal employees embarked on illegal strike without following proper process, employers had obtain an interdict to protect municipal assets and restore order.	Matsane Attorneys	None	Pending
9-2017	Johannes Buti Nkosi/ Thaba Chweu Local Municipality	Magistrate Court Mashishing Case No: C02623/2014	Applicant is suing TCLM for a motor vehicle damaged during strike at his residence.Parties to argue special plea once a trial date is allocated.	Matsane Attorneys	R200,000	Pending
10-2018	Axel Kazadi Kayembe / TCLM	Magistrate Court Lydenburg Case no: 0606/18	Applicant is claiming for a collision of motor vehicle with a pot hole within TCLM	Thobela Attorneys	None	Pending
11-2018	Preston Tomato farms	Magistrate Court Graskop Case no: 26/2018	Applicant is claiming for monies paid to obtain a clearance certificate on tranfer of property	Thobela Attorneys	None.	Pending
12-2017	Matabane Civils Construction/ Thaba Chweu Local Municipality	North Gauteng High Court, Case No: 38940/14	On 29 May 2014 the Plaintiff instituted an action for breach of contract against the Municipality for non-payment of outstanding invoices.We have served and filed our Notice of intention to defend and accepted to their particulars of claim. We are in process of setting the exception down. The matter is to be argued in court once there is a trial date.	Phungo Inc	R3,543,064	Pending
13-2018	Selina Clementine sibiya/ TCLM	Magistrate Lydenburg Sabie Case no: 0483	Applicant is claiming for a collision of motor vehicle with a pot hole within TCLM	Thobela Attorneys	None.	Pending
14-2017	Ntsumi Telecommunica tion/ Thaba Chweu Local Municipality	Gauteng High Court Case No: 65363/16	Applicant is claiming monies for professional service rendered.Applicant to proof the submitted invoice is justifiable for work done as it is disputed by the municipality.	Matsane Attorneys	R6,156,000	Pending

* See Note 38

37. Contingencies (continued)

20-2017	Jako de Klerk & Marietjie Malan/ Thaba Chweu Local Municipality & Surprise Maebela	North Gauteng High Court, Case No: 74389/14	The plaintiff is suing the, Municipality for damages amounting to R750 000 for five horses allegedly electrocuted as a result of the Municipality`s negligence in not maintaining such electrical poles on the plaintiff`s farm. The notice of intention to defend and the notice of exception were filed and the Municipality has since conducted the consultation. None compliance has been served on applicant and we served and filed our plea to their particulars of claim.	Phungo Inc	R750,000	Pending
21-2017	Hendrik J Samuels/ Thaba Chweu Local Municipality	North Gauteng High Court, Case No: 52875/12	Plaintiff sued for loss of support and damages for his deceased wife that passed at Big Swing (Graskop).The matter is before court after condonation has been granted and awaiting for pre-trial date.		R750,000	Pending
22-2017	MD Marish/ Thaba Chweu Local Municipality	Magistrate Court, Case No: 46/2016	Applicant obtained an urgent court order to interdict TCLM on disconnecting electricity.Applicant to submit proof of the account which he disputes with the revenue department.	Legal services	None.	Pending
23-2017	Gravet DM/ Thaba Chweu Local Municipality	Magistrate Court sabie, Case No: 130/16	Applicant obtained an urgent court order to interdict TCLM on disconnecting electricity.Notice of intention to defend has been served and parties agreed to have a round table meeting on the account disputed.	T.M Chauke Attorneys		Pending
24-2017	E Jordan/ Thaba Chweu Local Municipality	Magistrate Court Sabie Case No:	Applicant obtained an urgent court order to interdict TCLM on disconnecting electricity.Notice of intention to defend has been served and parties agreed to have a round table meeting on the account disputed.	T.M Chauke Attorneys		Pending
25-2017	Body corporate of eagle creek/ Thaba Chweu Local Municipality	Mpumalanga Division High courtCase No:	Applicant obtained an urgent court order to interdict TCLM on disconnecting electricity.Notice of intention to defend has been filed and a round table meeting has since been proposed.	T.M Chauke Attorney		Pending

37. Contingencies (continued)

26-2017	Department of labour/ Thaba Chweu Local Municipality	Northern Gauteng High Case No:	Department of labour has fined the Municipality in terms of section 21(4B) in accordance with schedule 1 of Employment Equity Act 55 of 1998 for failing to submit an equity plan on time.Parties have since had a round table meeting through the legal representatives since the matter is before court. A possible settlement is negotiated and to be made an order of court if agreed.	T.M Chauke Attorneys		
27-2017	Exodus Kgolofelo Mabanna/MEC for Cogta/MEC for Finance/ Thaba Chweu Local Municipality	Northern Gauteng High Court Case No: 29642/17	The applicant obtained an interdict to reverse the appointment of the Chief Whip on permanent basis within the institution.The municipality has since engaged the department of Cogta legal division to jointly address the matter.	T.M Chauke Attorneys	None.	Pending
28-2017	Exodus Kgolofelo Mabanna/MEC for Cogta/MEC for Finance/ Thaba Chweu Local Municipality	Northern Gauteng High Court Case No: 29641/17	The applicant obtained an interdict to reverse confirmation of employees within the institution.The municipality has since engaged the department of Cogta legal division to jointly address the matter.	T.M Chauke Attorneys	None.	Pending
29-2017	AGSA/ Thaba Chweu Local Municipality	Northern Gauteng High Court Case No: 596/2016	In terms of section 188 of the constitution the applicant must audit the financials of the municipality.Same has been done on behalf of the municipality and now the applicant is suing the municipality for work done.A payment plan has been send to the applicant and same to be made an order of court once parties agree to.	Matsane Attorneys	None	Pending
30-2017	The Thaba Chweu Rural Forum/ Thaba Chweu Local Municipality	Mpumalanga High court Case No: 1105/2017	The applicant made an application in court on behalf of farmers within Thaba chweu to be excluded from the normal rates levied by the municipality.All documents served on the municipality is forwarded to the attorneys representing the institution on the matter.	Len Dekker Incorporated	None	Pending

	2018	2017 Restated*

37. Contingencies (continued)

Contingent assets

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Claimant	Description	Legal rep	Estimated legal costs to be incurred	Case analysis
TCLM/ Unidentified Occupants (Beverly Hills)	The court interdict was obtained and the time the order was served the occupiers had already vacated the land. We are waiting for the court date to make the order final. The minister of police was also joined on the application for costs necessitated by the police refusal to assist the Municipality during initial stages of inversion.	TCM Chauke Attorneys	R1,500,000	The order will be granted in favour once the papers are filed accordingly.
TCLM/ Unlawfull Land Invaders	The Municipality appointed Maluleka Attorneys to help with the interdict to stop people who were invading the Municipal Land.	Maluleka Attorneys	R150,000	An order to be executed for municipality.

38. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

Notes to the Annual Financial Statements

	2018	2017 Restated*

38. Prior-year adjustments (continued)

2016

	Note	As previously reported	Correction of error	Restated
A. Landfill site asset		26,970,903	23,197,226	50,168,129
B. Land and buildings		129,913,428	(9,044,194)	120,869,234
C. Infrastructure assets		1,714,150,535	(1,180,404,347)	533,746,188
D. Community assets		272,470,695	(113,872,563)	158,598,132
Accumulated surplus		(1,987,330,056)	1,280,123,878	(707,206,178)
		156,175,505	**-**	**156,175,505**

A. The landfill site asset was recorded at the incorrect value. The GRAP 19 actuarial report was used to compute what the opening balance should be for the landfill site in order to restate the balance.

B. Land to the value of R9,044,194 could not be confirmed as belonging to the municipality and was thus derecognised.

C. A significantly material adjustment has been processed to infrastructure assets due to the revised deemed cost adjustments calculated by the assets service provider.

D. An adjustment has been processed to community assets which has the effect of derecognising community assets to the value of R113,872,563 from accumulated surplus.

38. Prior-year adjustments (continued)

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
A. Receivables from non-exchange		13,168,029	-	(11,618,377)	1,549,652
B. Receivables from exchange (Consumer debtors)		29,430,515	-	12,933,429	42,363,944
C. Payables from exchange transactions		(534,592,135)	-	6,774,729	(527,817,406)
D. Consumer deposits		(4,252,044)	-	395,219	(3,856,825)
E. Employee benefit obligation (current liability)		(32,671,672)	-	26,794,333	(5,877,339)
E. Employee benefit obligation (non-current liability)		-	-	(35,279,333)	(35,279,333)
F. Environmental rehabilitation provision (current liability)		-	-	(1,284,450)	(1,284,450)
F. Environmental rehabilitation provision (non-current liability)		(42,814,998)	-	1,284,450	(41,530,548)
F. Accumulated depreciation: Landfill site		-	(6,068,679)	-	(6,068,679)
G. Accumulated depreciation: infrastructure assets		(795,813,235)	78,314,585	-	(717,498,650)
H. Investment property		123,181,000	8,046,862	-	131,227,862
I. RDP housing inventory		172,801,000	(22,134,000)	-	150,667,000
		(1,136,389,262)	**73,278,879**	**-**	**(1,063,110,383)**

A. The reclass from non-exchange receivables amounts to the net balance of Rates receivables being R12,933,429 reclassed to "Consumer debtors" whilst credit balances amounting to R1,315,052 previously incorrectly included within non-exchange receivables was reclassifed to other payables as "unallocated receipts".

B. As per A above, the net balance owing on property rates of R12,933,429 has been reclassed to consumer debtors.

C. The balance of R1,315,052 as described in A. above has been reclassed to "other payables" whilst an additional balance as per D. below has also been reclassed to other payables.

D. Votes / GL accounts amounting to R395,219 previously incorrectly included within consumer deposits have now correctly been reclassified to payables from exchange transactions.

E. The employee benefit obligation was incorrectly disclosed in the prior year as a current liability. This has been rectified by appropriately disclosing the split between the current and non-current liability. The total long service award liability was also incorrectly included within payables from exchange transactions in the prior year. This has been reclassified to employee benefit obligations.

F. The current portion of the environmental rehabilitation provision was not disclosed as a current liability in the prior year. This has now been corrected through the reclass of the current portion amounting to R2,729,282. No depreciation was provided on the municipal landfill sites. This has now been corrected by accounting for a depreciation charge of R6,068,679.

G. Due to the material impact of the infrastructure adjustment as per item C in the 2016 adjustments above, the depreciation charge on infrastructure assets has been reduced by R78,314,585.

H. The fair value of investment properties have been restated which has resulted in an increase of R8,046,862 on investment properties.

I. An error was corrected whereby RDP housing inventory to the value of R22,134,000 has been corrected.

Statement of financial performance

Notes to the Annual Financial Statements

	2018	2017 Restated*

38. Prior-year adjustments (continued)

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
A. Revenue from exchange transactions (Service charges)		(187,917,027)	-	5,250,707	(182,666,320)
B. Revenue from non-exchange transactions (Property rates)		(96,627,876)	-	1,623,374	(95,004,502)
C. Bulk purchases		148,914,669	-	(22,734,099)	126,180,570
D. Contracted services		46,669,777	-	(6,914,651)	39,755,126
E. General expenditure (excl repairs and maintenance)		61,096,325	-	22,414,490	83,510,815
F. Depreciation - landfill site		-	6,068,679	-	6,068,679
G. Depreciation - infrastructure assets		110,106,016	(78,314,585)	-	31,791,431
H. Fair value adjustment		-	(8,046,862)	-	(8,046,862)
I. Loss on disposal of assets		97,849,473	22,134,000	-	119,983,473
J. Depreciation: community assets		8,617,271	-	-	8,617,271
K. Councillor remuneration		9,459,729	-	478,855	9,938,584
L. Finance costs		11,907,364	-	4,518,922	16,426,286
M. Actuarial losses		-	-	1,688,147	1,688,147
N. Employee related costs		162,332,795	-	(6,325,745)	156,007,050
Surplus for the year		**372,408,516**	**(58,158,768)**	**-**	**314,249,748**

A. The service charges figure was adjusted by R5,250,707 which represents the indigent subsidy for free basic services. This has the net effect of disclosing service charges whereby no indigent billing is included.

B. The indigent rates subsidy amounting to R1,623,374 was incorrectly included under general expenses in the prior year which has now been reclassed to property rates revenue whereby the net effect is that property rates revenue is disclosed net of indigent billing.

C. In the prior year the ESKOM electricity purchases for own accounts of the municipality was incorrectly included with bulk purchases. This has subsequently been corrected by reclassifying R22,734,099 of electricity purchases to the electricity expense which is disclosed as a line item within general expenses.

D. Numerous reclassifications have been done from general expenses to contracted services so as to more closely align with the contracted services line items descriptions as required by the mSCOA chart of accounts.

E. As per items A - D above various reclassifications have been made to expense accounts included within general expenses.

F. Previously no depreciation was accounted for on the municipal owned landfill sites based in Graskop, Sabie and Lydenburg. This has now been corrected by accounting for a depreciation charge of R6,068,679.

G. Due to the material impact of the infrastructure adjustment as per item C in the 2016 adjustments section above, the depreciation charge on infrastructure assets has been reduced by R78,314,585.

H. The fair value of investment properties have been restated which has resulted in an increase of R8,046,862 on investment properties.

I. RDP housing inventory to the value of R22,134,000 was disposed of.

J. The depreciation charge for community assets was corrected after processing the opening cost adjustment.

K. Two votes previously included within "travel costs - local" relates to councillor remuneration and have thus been reclassified as such.

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

38. Prior-year adjustments (continued)

L. Interest cost as calculated by the actuarial consultants as per their GRAP 19 and GRAP 25 reports have been reclassified to interest cost.

M. Actuarial losses relating to long service awards and the post employment medical aid plan has been reclassified to the actuarial loss expense.

N. GRAP 19 Actuarial losses and interest cost were previously included within employee related cost. This has now been split out separately to the interest cost and actuarial cost line items in the Statement of Financial Performance.

39. Commitments

Authorised capital expenditure

	2018	2017
Already contracted for but not provided for		
• Property, plant and equipment	7,653,819	6,599,000
Total capital commitments		
Already contracted for but not provided for	7,653,819	6,599,000

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.

Operating leases - as lessee (expense)

	2018	2017
Minimum lease payments due		
- within one year	2,629,337	298,120
- in second to fifth year inclusive	3,724,894	-
	6,354,231	**298,120**

Operating lease payments represent rentals payable by the municipality for certain of its office printers. Leases are fixed for a minimum period of three years. No contingent rent is payable.

* See Note 38

Notes to the Annual Financial Statements

	2018	2017 Restated*

40. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Controlled entities	THALEDA
Close family member of key management	Name
Members of key management	TMP Kgoake
	LM Mokwena
	ME Malungana
	MGT Mnisi
	SS Matsi
	SD Maebela

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties	2018	2017
Councillor SM Phetla	(802)	16,344
Councillor ET Mabuza	39,587	1,731
Councillor JB Mabuza	654	-
Councillor CJ Sibiya	(7)	10,043
Councillor E Mabanna	(195)	1,121
Councillor DR Nkabinde	-	22,981
Councillor MT Mashego	912	708
Councillor KA Letsane	84	852
Councillor KJ Malepe	(1,053)	400
Councillor SE Van Douwe	-	454
Councillor JH Ligthelm	1,838	880
Councillor JJ Mkhize	(7,414)	313
Councillor RG Herbst	(10)	360
Councillor ES Anderson	513	-
Councillor JM Hlatshwayo	(7,436)	-
THALEDA (Pty) Ltd	-	53,875

41. Unauthorised expenditure

	2018	2017
Unauthorised expenditure : opening balance	124,806,278	66,152,170
Add: unauthorised expenditure	8,459,017	58,654,108
	133,265,295	**124,806,278**

42. Fruitless and wasteful expenditure

	2018	2017
Opening balance	103,528,225	92,534,350
Add : Fruitless and wasteful expenditure incurred	22,042,825	10,993,875
	125,571,050	**103,528,225**

43. Irregular expenditure

	2018	2017
Opening balance	298,985,679	199,935,438
Add: Irregular Expenditure - current year	45,811,832	99,050,241
	344,797,511	**298,985,679**

* See Note 38

Notes to the Annual Financial Statements

Figures in Rand

43. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	45,811,832	99,050,241
Prior years	-	199,935,438
	45,811,832	**298,985,679**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Contracts extended without following proper procurement processes.		13,749,291
Contracts awarded with bid adjudication committee not composed in terms SCM regulation 29(2)		9,999,923
MDB 6.1 (declaration of local content form not attached on the tender document)		1,096,553
Turnkey project (Consultant not registered with CIDB)		8,311,348
Procurement processes not followed.		1,045,679
Deviations not compliant with SCM regulation 36(1)		5,746,479
Unsoliced Bids not compliant with SCM regulation 37(1)		1,041,561
Overtime paid that exceeded threshold.		3,876,983
		44,867,817

44. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses

Electricity (Losses expressed in KWH units)	28,097,897	22,686,955
Electricity (Losses expressed as a %)	20	18
Water (Losses expressed in Kilolitres)	6,412,468	6,424,650
Water (Losses expressed as a %)	66	66
	34,510,451	**29,111,689**

Audit fees

Opening balance	8,983,803	9,538,078
Current year expense	5,150,131	8,205,722
Amount paid - current year	(12,473,729)	(8,759,997)
	1,660,205	**8,983,803**

PAYE and UIF

Opening balance	2,122,082	1,890,288
Current year expense	27,917,241	24,256,810
Amount paid - current year	(27,766,156)	(24,025,016)
	2,273,167	**2,122,082**

Notes to the Annual Financial Statements

Figures in Rand

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	6,947,004	6,548,446
Current year expense	41,607,301	38,523,503
Amount paid - current year	(43,197,144)	(38,124,944)
	5,357,161	**6,947,005**

VAT

VAT receivable	38,803,053	40,191,280

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2018	Highest outstanding amount	Over 90 days
ET Mabuza	39,587	27,876
Shongwe and Mdhuli - Business account	6,591	5,606
	46,178	**33,482**

45. Fair value adjustments

Investment property (Fair value model)	5,070,211	8,046,862

46. Cash generated from operations

Deficit	(9,042,787)	(123,063,233)
Adjustments for:		
Depreciation and amortisation	59,139,942	56,650,477
Loss on disposal of assets	-	119,983,473
Finance costs	(14,428,532)	(12,270,135)
Debt impairment	23,392,946	15,374,300
Movement in leave and bonus accrual	11,635,197	-
Traffic fines	(2,509,727)	(2,439,950)
Actuarial gains and losses	(7,620,356)	1,688,147
Fair value adjustments	(5,070,211)	(24,573,320)
Changes in working capital:		
Inventories	32,438	42,785,553
Consumer debtors	(39,621,528)	(22,044,905)
Other receivables from non-exchange transactions	687,270	16,458,680
Payables from exchange transactions	69,392,218	71,590,830
VAT	1,388,227	(11,323,134)
Unspent conditional grants and receipts	14,261,511	7,512,258
Consumer deposits	(231,476)	(508,516)
Employee benefit obligation	615,282	7,659,710
	102,020,414	**143,480,235**

Notes to the Annual Financial Statements

47. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks which predominantly includes credit risk and liquidity risk.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

The municipality's credit risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. All the municipality's deposits are of a short term nature to ensure that the municipality's cash flow is not affected.

Consumer debtors comprise a widespread customer base.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2018**	**2017**
Bank balances	6,473,659	2,686,874
Short term deposits	28,063,482	18,463,443
Consumer debtors	65,394,387	42,363,944

48. Budget differences

Material differences between budget and actual amounts

Service charges: The variance is largely due to water and electrical distribution losses.

Other income: Significant variance due to lower demand for ad-hoc municipal services.

Public contributions and donations: A donation was received that was unbudgeted for.

Fines, penalties and interest: Budget variance due to traffic fine revenue accounted for from the traffic fine registers in accordance with iGRAP 1.

Interest cost: GRAP 25 actuarial interest accounted for as part of finance costs.

Depreciation: was under budgeted for.

Debt impairment: was completely under budgeted for.

Bulk purchases: electricity used for own consumption was reclassified to the electricity expense within general expenses.

Contracted services: Various reclassifications have been made from general expenses to contracted services to be more aligned to mSCOA.

Repairs and maintenance: the process has commenced to unbundle repairs and maintenance expenses into the various components. Repairs and maintenance has been included within general expenses.

Actuarial gains/losses and fair value adjustments: These were accounting adjustments in terms of GRAP 16 and GRAP25 which were not budgeted for.